

in Uzbekistan in 1999, securing natural resource concessions from \ the Uzbek state at highly advantageous terms. Now, Zeromax is \ involved in almost every aspect of the Uzbek oil and gas business: \ planning and engineering; exploration and production; construction \ of pipelines and other oil and gas infrastructures; and refining \ and retailing. By November 2007, Zeromax reportedly had invested \ approximately USD 400 million in the rehabilitation of Uzbekistan's \ industrial infrastructure, making it (at the time) the country's \ largest private foreign investor as well as its largest private \ sector employer. The same year it also sold a portion of its assets \ in Uzbekistan to Russia's Gazprom for a considerable profit. \ \\ \\

¶4. (SBU) As of December 2009, Zeromax has at least eight \ subsidiaries/JVs operating at various points along Uzbekistan's oil \ and gas supply chain. These entities include a fifty-fifty joint \ venture with the Uzbek state (Neftgaz Sanoat Loyiha) devoted to \ project engineering and a second Uzbek-Swiss JV (NefteGazMontaj) \ that designs and constructs pipelines. Zeromax is working on \ construction of the Uzbek portion of the new Turkmenistan-China \ pipeline in consortium with the China Petroleum Pipeline Bureau \ (CPP) and the China Petroleum Engineering & Construction \ Corporation (CPECC). Zeromax is also the dominant player in the \ retail gasoline industry, particularly high-grade octane, through \ its wholly-owned subsidiary, UzGazOil. UzGazOil operates 80 retail \ stations throughout Tashkent, Ferghana, and Karshi and controls \ approximately 70 percent of the retail gasoline market in these \ areas. \\

TASHKENT 00000027 002 OF 004 \\

THE SWISS LINK \\ \\ \\

¶5. (SBU) Founded in 1999 under the name Zeromax LLC in Delaware, \ USA, Zeromax re-domiciled as a Swiss entity in the Zug Canton in \ 2005 (now Zeromax GmbH), presumably to take advantage of the \ country's tax and finance laws. Other observers note that this move \ coincided with a downturn in U.S.-Uzbek relations following the \ U.S.'s condemnation of events in Andijon in May 2005. At this time, \ Karimova was also subject to an arrest warrant in the U.S. for \ refusing to obey a New Jersey court ruling granting her husband, an \ American-Afghan citizen, shared custody of their children. \\ \\ \\

¶6. (SBU) Switzerland is now Uzbekistan's second biggest trading \ partner with export of natural gas comprising the largest part of \ Uzbek-Swiss trade. Zeromax is a main Swiss recipient of Uzbek \ currency receipts under a complicated gas export arrangement with a \ wholly-owned Swiss subsidiary of Gazprom Germania GmbH called ZMB \ Schweiz, a natural gas trading company focused on the exploration, \ production and sale of hydrocarbons. The details of the \ arrangement remain unclear; it is known that Uzbekistan is the core \ market for ZMB Schweiz's gas purchase activities, and Zeromax is \ the key supplier. 2008 natural gas deliveries from Uzbekistan to \ ZMB Schweiz totaled 11.5 billion cubic meters, exceeding the \ previous year's figure by 26%. ZMB Schweiz's 2008 Annual Report \ notes that its plans to set new contractual arrangements for the \ purchase of natural gas in 2009 with Zeromax. As a private company, \ Zeromax is not required to make public detailed financial \ information. Zeromax has disclosed that its operating revenues and \ total assets (on a consolidated basis) have doubled each year since \ 2006, reaching approximately USD 3 billion in revenue and assets \ for 2008, representative of about 10% of Uzbekistan's 2008 gross \ domestic product (USD 27.9 billion). \\ \\ \\

¶7. (SBU) Officially, Zeromax's management team is headed by Miradil \ S. Djalalov, an Uzbek national with close ties to the Karimov \ family and Russian-Uzbek tycoon Alisher Usmonov. However, Zeromax \ is widely rumored to be controlled by Gulnara Karimova and is \ thought to account for a significant portion of the family's \ purported multimillion-dollar fortune. In September 2008, President \ Karimov appointed his daughter Permanent Representative to the \ United Nations in Geneva, which some observers have noted helps \ position her to wield greater control over Zeromax. There are \ reports that Karimova has recently taken on new duties as Uzbek \ Ambassador to Spain, although she continues to reside in \ Switzerland and remain accredited to the U.N. in Geneva. \\ \\ \\

ZEROMAX'S MINING EMPIRE EXPANDS \\ \\ \\

¶8. (SBU) Zeromax is active in the mining industry and does business \ thorough JV Bentonite, an Uzbek-Swiss company that is 74% \ Zeromax-owned with the remainder held by a subsidiary of \ Uzbekneftegaz. The company extracts and processes bentonite, a clay \ found predominately in the Navoi Region of Uzbekistan. Bentonite \ may be used in more than 200 consumer products, such as paint, \ textiles, soap, and cosmetics. Zeromax is also the general \ contractor for Almalyk Mining and Metallurgy Combine OJSC's (AGMK) \ ore and mining processing plant project at the Khandiza field in \ Kashkadarya. AGMK, GOU-controlled entity, is the largest copper \ producer and exporter in Uzbekistan. It intends to launch ore \ mining and processing operations in Khandiza in the first half of \ 2010. Zeromax began construction of the project in 2007. \\ \\ \\

¶9. (C) In 2006, Zeromax became a strategic partner of Oxus Gold \ PLC, a company listed on the London Stock Exchange's Alternate \

TASHKENT 00000027 003 OF 004 \\ \\ \\

Investment Market, by acquiring 16% of the company's share capital. \ Oxus is a 50 percent joint venture partner with the GOU in \ Amantaytau Gold Fields (AGF), a gold mining operation that is \ developing concessions in Uzbekistan's Tien Shan Gold Belt, which \ boasts the world's second largest gold reserves after South \ Africa's Witwatersrand Basin. Some observers assert Oxus Gold \ aligned itself with Zeromax after becoming weary of dealing with \ local corruption and cronyism and to settle a dubious tax charge of \ USD 225 million, which was dropped by the GOU following the deal. \ The marriage has reportedly been difficult from the beginning with \ confidential Embassy sources stating that Oxus Gold executives \ privately have expressed both professional and personal differences \

with Zeromax management. Zeromax purchased its holdings at GBP \ 0.215 per share (about USD 0.35 at current exchange rates); with \ Oxus Gold currently trading at about GBP 0.09 per share and \ recording a 52-week high of GBP 0.15 per share, the Oxus Gold \ investment represents a significant paper investment loss for \ Zeromax. \

\
\
\
AND THERE'S MORE - AGRICULTURE & TEXTILES & LOGISTICS \

\
\
\
¶10. (SBU) Zeromax entered the agricultural sector in 2003 with the \ opening of a food processing plant and storage and distribution \ depot. The company has since expanded into cotton and wheat \ cultivation and cattle-breeding. In 2005, Zeromax acquired \ cultivation rights to more than 12,000 hectares of cotton-producing \ land and 15,000 hectares for wheat and other crops in Uzbekistan's \ Tashkent, Dzhizak and Syr Darya regions. All agricultural \ operations are consolidated under the subsidiary Muruvvat- \ Agrosanoat, which employs 3,000 fulltime workers and 9,000 seasonal \ workers. \

\
\
\
¶11. (SBU) In 2005, Zeromax also entered into textile production and \ manufacturing projects. Through its subsidiary Muruvvat-Teks, \ Zeromax operates six sewing factories, a Tashkent shopping mall, \ and a textile company in Khorezm region. To provide for efficient \ transit for its goods, Zeromax established Temiriyul-Khizmat, a \ wholly-owned freight-forwarding subsidiary, in 2005. The company \ specializes in providing complex freight-forwarding services of \ valuable industrial equipment and other goods throughout the CIS. \ Other Zeromax assets include ownership of 64% of the "UzCable" \ factory, one of the larger cable producers in Central Asia; media \ businesses; and tourism. \

\
\
\
CURRENT U.S. CONNECTIONS \

\
\
\
¶12. (C) Despite re-domiciling in Switzerland, Zeromax continues to \ maintain close connections with certain members of the American \ business community. A U.S. citizen businessman now resident in \ Maryland was formerly President of and now serves as "Counselor" \ to Zeromax and as a member of the board of Oxus Gold. Zeromax is a \ major sponsor of the American-Uzbekistan Chamber of Commerce, which \ recently hosted the U.S.-Uzbekistan Investment Summit 2009 on \ October 8, 2009, in New York City. Elyor Ganiev, Deputy Prime \ Minister and Minister for Foreign Economic Relations, Investment \ and Trade and high-ranking figure, attended on behalf of the GOU. \ Another U.S. businessman claims that Zeromax, as part of a \ consortium with seven U.S. companies, will bid on Afghan transit \ business opportunities related to the Northern Distribution Network \ (NDN). \

\
\
\
QUESTIONABLE BUSINESS PRACTICES \

\
\
¶14. (SBU) There have been reports that the Uzbek state has used its \ TASHKENT 00000027 004 OF 004 \

\
\
power in support of Karimova's private business interests, allowing \ her to bully competitors and to channel additional assets into \ personal entities such as Zeromax. In a lawsuit filed in federal \ court in Houston in 2007, a Texas-based tea company that operated \ in the Uzbek packaged tea market sued its insurer for failing to \ pay out on extortion and kidnap coverage after Karimova allegedly \ used her influence with the government to drive the company out of \ the country, even arresting or threatening to arrest company \ employees to force them to sign over assets. \

\
\
\
¶15. (SBU) New Jersey-based Roz Trading Ltd. (ROZ), a company owned \ by Karimova's former in-laws - the Magsudi family, brought a series \ of claims against Zeromax for unlawful conspiracy and \ misappropriation of its ownership interest in a joint venture in \ the soft drink industry in Uzbekistan. According to ROZ, following \ Karimova's divorce from Mansur Maqsudi, the GOU, on behalf of \ Karimova, seized ownership of Roz's assets in Coca-Cola Bottlers of \ Uzbekistan (CCBU) on the grounds that ROZ had failed to comply with \ tax and anti-monopoly regulations. Through a series of "sham \ proceedings," the GOU sold Roz's assets to Zeromax. Claims against \ Zeromax in the U.S. were dismissed due to lack of jurisdiction. In \ related arbitration initiated by ROZ at the International Arbitral \ Centre of the Austrian Federal Economic Chamber, the arbitral \ tribunal terminated the proceedings as to Zeromax Group, Inc. - the \ dissolved former affiliate of Zeromax, and the only Zeromax entity \ named as a defendant in the arbitration. \

\
\
\
Comment \

\
\
\
¶16. (C) Despite a lack of concrete data regarding its operations, \ Zeromax is widely perceived to be a powerful and not necessarily \ benign force in Uzbekistan's economy. Its expansion from the oil \ and gas industry and mining industry into other areas of the Uzbek \ economy means most international companies seeking to operate in \ Uzbekistan may find themselves engaging in business with \ Zeromax-related entities. The Embassy's message to those proposing \ to enter into business arrangements with Zeromax or its affiliates \ is to carry out full due diligence. We are not saying "don't do \ business with Zeromax" because such a stance may not be legally \ justified or sustainable in practice. However, any business \ arrangements should be entered into with open eyes, and the Embassy \ is prepared to advise and try to assist any American company that \ feels subjected to aggressive business tactics in Uzbekistan. \

NORLAND \